

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**FIRST SET OF INFORMATION REQUESTS TO
KEYSPAN ENERGY DELIVERY NEW ENGLAND**

D.T.E. 05-54

Respondent: Marygrace Cerce
Dated: October 4, 2005

Information Request DTE 1-1

- Q. In D.T.E. 03-86, Keyspan sought and received approval to substitute a fixed rate of 4.25 percent in place of the three-month Treasury bill rate in the formula for calculating energy efficiency performance-based incentives for Program Year 1 and 2. Explain why the continued substitution of a 4.25 fixed rate in place of the three-month Treasury bill rate in the formula for calculating energy efficiency performance-based incentives in Program Year 3 is no longer sufficient.
- A. Please refer to the prefiled testimony of Bruce A. Johnson labeled Attachment 4, Exhibit BAJ-1 accompanying the Company's filing of August 1, 2005. As noted, in D.T.E. 03-86, the Department approved the use of a fixed rate of 4.25 percent for Program Years 1 and 2, and also stated that the Company could propose use of a fixed rate for calculating shareholder incentives for Program Years 3 through 5 depending on the prevailing three-month Treasury bill rate.

A fixed rate of 5 percent in place of the three-month Treasury bill was approved by the Department in Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-2 (2003).¹ In that case, the Department recognized, as it did in D.T.E. 98-100 (2000), that "an incentive must be large enough to promote good program management, but small enough to leave almost all of the money to directly serve customers" and found that the 5 percent fixed rate balanced those two objectives and was consistent with information used by the Department in formulating the D.T.E. 98-100 Guidelines. The Department in that same case noted that when the Guidelines were formulated, DOER, the agency charged by the legislature with much of the oversight of energy efficiency programs, stated that an incentive of 4 to 6 percent would sufficiently motivate electric companies to effectively manage energy efficiency programs. DOER supported the use

¹ Previous to the Department's allowing use of a 5 percent fixed rate, the Department granted an exception to the Guidelines to allow certain electric companies to use 4.25 percent instead of the Treasury bill rate Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 03-2 citing NStar Electric Company, D.T.E. 00-63-A at 8 (2003), Western Massachusetts Electric Company, D.T.E. 00-79-A at 7 (2003), and Massachusetts Electric Company and Nantucket Electric Company, D.T.E. 00-65-A at 7 (2002).

of a fixed rate of 5 percent in Annual Report on Massachusetts Electric Company and Nantucket Electric Company 2005 Energy Efficiency Plan filed on June 29, 2005 in D.T.E. 05-30. The Department on October 3, 2005, approved the plan filed in D.T.E. 05-30, including the use of a fixed rate of 5 percent. Approval of the fixed rate of 5 percent, the mid range recommended by DOER, would place KeySpan on par with the electric utilities thereby resulting in consistent and fair treatment.

There are other reasons for the Department to approve a fixed rate of 5 percent for the Company. KeySpan has increased the number of metrics to be used in calculating its performance. The Company is presently seeking to put in place an incentive structure consistent with the Commonwealth's investor-owned electric distribution companies. In addition to being the first investor-owned gas distribution company to request modifications to its incentive structure, the Company has continued discussions with the Non-Utility Parties² to develop new incentive metrics for the remaining years of the current five-year plan. The current modifications are:

1. With respect to the incentive structure, the Exemplary Level has been lowered from 125 percent to 110 percent for Program Years Two through Five. The Department approved this proposal by the Company and recognized that, as a result, the Company's incentive would be smaller.
2. Also with respect to the incentive structure, the Threshold Level has been set at 70 percent for Program Year Two. In Program Years Three through Five, the Threshold Level is 75 percent
3. Performance goals will be divided into three components which will include (a) program performance, the customary basis for performance goals; (b) the cost effectiveness of program delivery (except for the Low-Income Program, the Building Technology and Demonstration Program, Trade Ally activities and other education initiatives); and (c) total therm savings from program participants.

In summary, the Company's request is consistent with its previous request of 5 percent and is consistent with what the Department has approved for other utilities.

² The Non-Utility Parties include the Massachusetts Division of Energy Resources, the Northeast Energy Efficiency Council, Action, Inc., the Massachusetts Community Action Association, and the Massachusetts Energy Directors Association. The Office of the Attorney General, although not a signatory to the 2002 settlement, is regularly informed of all programs and invited to participate in all discussions between the Company and the Non-Utility Parties.